

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BFN2094 – CORPORATE RISK MANAGEMENT

(All sections / Groups)

29 FEBRUARY 2016

2:30 p.m. - 4.30 p.m.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **FOUR** pages (including the cover page) with **5 STRUCTURED QUESTIONS ONLY**.
2. Please answer **ALL** the questions.
3. Please print **ALL** your answers in the **Answer Booklet** provided.

QUESTION 1 (20 MARKS)

- a. Scientists are now discovering genes that will help to identify people who have high risk of certain types of cancer. Explain why this would be valuable information to a health or life insurer. Would it be fair for an insurer to use this information in insurance pricing?

[10 marks]

- b. Suppose that an insurer offered a small business owner a policy for theft insurance with no deductible i.e. the insurance company would pay any and all claims for thefts of merchandise or equipment at the insured's place of business. Explain how moral hazard might make the total claims higher than they would be if the policy required a deductible.

[10 marks]

QUESTION 2 (20 MARKS)

Greeno manufacturer has substantial warehousing needs for raw materials. It currently faces the choice of building a single RM30million facility or three separate RM10 million facilities. Each facility faces the following loss distribution. (The separate facilities are statistically independent.)

Probability of Loss	Percent of Value Lost
0.03	100
0.05	50
0.92	0

- a. What is the expected loss for each warehousing choice?
- [8 marks]
- b. What is the probability of a RM30 million loss for warehousing choice?
- [8 marks]
- c. Having the three separate facilities will reduce the expected severity of losses. What are some disadvantages to this segregation of loss exposures?

[4 marks]

Continued...

QUESTION 3 (20 MARKS)

- a. List the advantages and disadvantages of purchasing an insurance policy on aggregate property and liability losses versus purchasing a separate property insurance policy and a separate liability insurance policy.
- b. The development and selection of alternative risk management methods involves a fundamental tradeoff between the benefits of retention and the increased costs from greater risk. What are the benefits of increased retention?

[10 marks]**[10 marks]****QUESTION 4 (20 MARKS)**

Marvellous Holiday has the following distribution for its annual liability costs:

Loss =	RM2,000,000	with probability 0.0001
	RM100,000	with probability 0.001
	RM5,000	with probability 0.1
	RM0	with probability 0.8989

- a. What are the expected claim - costs for Marvellous Holiday?
- b. If an insurer offered Marvellous Holiday a policy with 50% coinsurance, what are the expected claim costs on this policy?
- c. If an insurer offered Marvellous Holiday a policy with a RM5,000 annual deductible, what are the expected claim costs on this policy?
- d. If an insurer offered Marvellous Holiday a policy with a RM 500,000 limit, what are the expected claim costs on this policy?

[5 marks]**[5 marks]****[5 marks]****[5 marks]****Continued...**

QUESTION 5 (20 MARKS)

Given the following data on loss control expenditures.

Loss Control Expenditures	Number of Worker Injuries	Average Injury Severity
RM 0	280	RM 6,500
RM 80,000	238	
RM 160,000	207	
RM 240,000	182	
RM 320,000	170	
RM 400,000	165	

- a. What is the marginal benefit of increasing loss control expenditures from RM80,000 to RM160,000?
- b. What is the economically efficient level of loss control spending?

[5 marks]

[15 marks]

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